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ABSTRACT

The problem of managing collection efforts on defaulted student loans under the guaranteed student loan program is discussed. This review was made to assist the Office of Education in developing collection guidelines and procedures to cope more effectively with the rapidly increasing backlog of defaulted loans. It is shown that changes in policy and emphasis will improve collections--through both voluntary payments and legal actions--and will provide for systematically removing cases that cannot be collected. GAO recommendations and HEW comments are included. (LBH)

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UNITED STATES
GENERAL ACCOUNTING OFFICE

Collection Efforts Not Keeping Pace With Growing Number Of Defaulted Student Loans

Office of Education
Department of Health, Education, and Welfare

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The Office of Education guaranteed 4 million student loans amounting to $4.5 billion through September 1976 and has paid out about $287 million to lending institutions because of student defaults.

Through that date the Office collected only $25 million; most of the defaulted loans still require collection. Collectors cannot handle their workloads, and the trend is toward ever larger, less manageable workloads.

Changes in policy and emphasis will improve collections--through both voluntary payments and legal actions--and will provide for systematically removing cases that cannot be collected.

HE009338

CD-77-1

AUGUST 11, 1977

TO THE READER:

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

B-117604

The Honorable
The Secretary of Health,
Education, and Welfare

Dear Mr. Secretary:

This report discusses the problem of managing collection efforts on defaulted student loans under the guaranteed student loan program authorized by the Higher Education Act of 1965 and administered by the Office of Education.

We made this review to assist the Office of Education in developing collection guidelines and procedures to more effectively cope with the rapidly increasing backlog of defaulted student loans.

The report recognizes that efforts are being made to improve the collection program by providing better guidance to collection personnel, contracting for collection assistance, and developing a capability for referring cases directly to the Department of Justice for legal action.

This report contains recommendations to you on pages 22 and 23. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Senate Committees on Governmental Affairs; Human Resources; Appropriations, Subcommittee on Labor, Health, Education, and Welfare; and the House Committees on Government Operations; Education

and Labor; and Appropriations. Copies are being sent to the Director, Office of Management and Budget; and your Assistant Secretaries for Education and Management and Budget, and Commissioner of Education.

Sincerely yours,

Gregory J. Ahart
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE SECRETARY OF
HEALTH, EDUCATION, AND
WELFARE

COLLECTION EFFORTS NOT KEEPING PACE WITH GROWING NUMBER OF DEFAULTED STUDENT LOANS

Office of Education
Department of Health, Education, and Welfare

D I G E S T

The Office of Education has a system for collecting loans that is similar to a clogged pipeline. Many defaulted loans enter but relatively few leave the system. Although some positive actions are being taken, the problem has reached serious proportions.

The Office guaranteed 4 million student loans amounting to $4.5 billion through September 1976. It had to pay about $287 million to lending institutions during the same time because about one of every six loans had been defaulted after the student completed or withdrew from school.

After paying the lenders, the Office has to collect the defaulted loans. Through September 1976, only $25 million had been collected--mostly through monthly payments.

Regulations require an aggressive collection program and administrative action, when appropriate, to end collection or refer the defaulted loans to GAO or the Department of Justice for further action. GAO recommends ways the Office of Education can improve its collection process to the point where the regulations can be effectively carried out.

COLLECTION PROGRAM NOT KEEPING PACE WITH GROWTH IN DEFAULTED LOANS

The number of defaulted loans held by the Office of Education has been increasing. From 1968 to September 1976, about 280,000 defaulted loans accumulated, 76,456 of them in fiscal year 1976. Another 147,000 are expected in fiscal year 1977. During 1976 only 13,525 debtors fully repaid or started repayment of their defaulted loans.

Money paid to lenders also increased, as the table shows.

	FY 1975	FY 1976 (15 mo.)	FY 1977 (expected)
	---------(millions)----------		
Money paid to lenders	$71.7	$105.5	$148.8

Most of the loans requiring further collection have been kept in regional offices. Regional collectors have too many cases and larger backlogs than they can take care of, so many loans receive little or no attention.

The problem is serious. Many defaulted loans are so old, they will soon be barred from enforced collection through the courts. Losses could be high, since amounts paid to lenders already exceed amounts collected on defaulted loans by about $400 million, and the trend is toward even larger inventories of defaulted loans.

WHAT TO DO

Rather than allow defaulted loans on which collection efforts have not been successful to accumulate in regional offices, the Office of Education should follow systematic procedures that will lead to their disposition.

Relatively firm criteria and standards exist to help determine when legal action or termination of collection is appropriate, but management needs to make sure that defaulted loans are processed systematically so such determination can be made.

IMPROVEMENTS BEING MADE OR STILL NEEDED

The Office of Education is trying to improve its collection program. It plans to contract for collection assistance, which would increase total collectors. But, contracting will place an additional burden on the collection staff because of the need to

--resolve issues raised by debtors who dispute their debts or offer to settle for less than the amount owed,

--be sure the contractor is neither overzealous nor derelict in collection and documentation of loans, and

--follow up and complete the processing of loans that the contractor fails to collect.

The Office of Education has been working with GAO and the Department of Justice to refer defaulted loans needing legal action from the regional offices directly to U.S. attorneys. Some regions now use these simplified referral procedures, but others have not yet developed the capability to do this. More people in default will be prompted to repay voluntarily when they know the Government is enforcing collection.

The Office of Education has been developing a new computerized information system, seeking authority for more collection personnel, and developing better guidelines for its collection personnel.

These guidelines should be further strengthened. Collectors should be required to solicit financial statements from debtors who refuse to pay or say they cannot pay. (Information on ability to pay can be useful in evaluating collection alternatives.) By requiring that offers to compromise must be initiated by the debtor, the guidelines restrict the occasions when compromise can be considered. Also, collection personnel were unaware of procedures that should be followed to arrange collection through payroll deductions or offset when debtors are identified as current or former Federal employees.

RECOMMENDATIONS

The Secretary of Health, Education, and Welfare should direct the Commissioner of Education to effectively process defaulted student loans to the point of collection, referral for legal action, or termination. This should include

--requiring the contractor to document unsuccessful collection efforts,

--instructing collectors to request debtor-prepared financial statements,

--revising guidelines on compromise,

--developing guidelines on collecting from current or former Federal employees,

--requiring every regional collection staff to develop the capability for referring defaulted loans directly to U.S. attorneys, and

--establishing a system for monitoring regional office collection activity.

AGENCY COMMENTS

The Department of Health, Education, and Welfare generally agreed with GAO's recommendations. It did not agree that the guidelines on compromise settlements need revision. The Department is concerned that unskilled collectors might make indiscriminate compromise settlements. GAO pointed out, however, that inviting debtors to submit compromise offers need not result in indiscriminate acceptance of the offers. (See p. 23.)

The Department stated that since the beginning of the guaranteed student loan collection program, resources have been woefully inadequate. Almost 300,000 defaulted loans are being serviced by 155 full-time and some temporary personnel. The Department said, however, that a workable computerized collection system and a planned contract with a private business for collection assistance will gradually eliminate the backlog of uncollected defaults.

Contents

		Page
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Federal Claims Collection Act of 1966	2
	Program funding and collection staffing	2
	Loan activity	3
2	OE's COLLECTIONS HAVE NOT KEPT PACE WITH THE GROWING INVENTORIES OF DEFAULTED LOANS	4
	Elements of an effective collection system	4
	OE's collection system	6
	Inventory size and growth	6
	Dispersion of collection efforts	8
	Proposed contract for collection service	10
	Needed policy revisions	11
	Need for obtaining debtor-prepared financial statements to evaluate ability to pay	11
	Need for increased emphasis on compromise of debts	13
	Need to offset debts against salary or retirement benefits due Federal employees	14
	Need to refer uncollectible claims to the Department of Justice	16
3	CONCLUSIONS AND RECOMMENDATIONS	21
	Conclusions	21
	Recommendations	22
	HEW's comments and our evaluations	23
4	SCOPE OF REVIEW	25
APPENDIX		
I	Letter of June 17, 1977, from the Inspector General, HEW	26
II	Our reports relating to guaranteed student loan program	31
III	Principal HEW officials responsible for administering activities discussed in this report	33

ABBREVIATIONS

GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
OE	Office of Education

CHAPTER 1

INTRODUCTION

The guaranteed student loan program was established under title IV, part B of the Higher Education Act of 1965 to provide for long-term insured loans for students in institutions of higher education and vocational schools. The loan program is administered by the Office of Education (OE), Department of Health, Education, and Welfare (HEW), and loans are insured by either a State or private nonprofit agency or the Federal Government (for students or lenders who do not have reasonable access to a State or private nonprofit program). Our review concerned OE's procedures and operations under the Federal component for the collection of defaulted loans.

Under the guaranteed student loan program, students borrow money directly from a bank, savings and loan association, credit union, or other participating lender. The 1976 amendments to the Higher Education Act limit the aggregate unpaid principal amount insurable to $7,500 for an undergraduate student and $15,000 for a graduate student.

Depending on a student's family income, the Federal Government or the student pays the interest to lenders on insured student loans while the student is in school, during a 9- to 12-month grace period (a period after the student ceases to be enrolled on at least a half-time basis), or during other authorized deferments for military service, the Peace Corps, or VISTA. When the repayment period starts, all students are responsible for paying interest on their loans. The current interest rate on insured loans is 7 percent. To provide an equitable yield to the lender, a special quarterly allowance, not to exceed 3 percent per annum, has been provided to lenders for all loans made since August 1969. The Education Amendments of 1976 increased the maximum special allowance to 5 percent beginning in fiscal year 1978.

A borrower is required to repay the loan plus interest over a maximum period of 10 years--excluding any periods of deferment--generally starting after the grace period. The Higher Education Act of 1965 requires that lenders exercise reasonble care and diligence in collecting student loans, and OE's manual for lenders provides that they should use collection practices, short of legal acton, that are timely and forceful, including demand letters, telephone calls, and personal contacts. Lenders have the right to seek recovery from OE on defaulted loans when such procedures have been followed. Lenders may also seek recovery from

OE when there is evidence that a student is deceased, totally and permanently disabled, or bankrupt. After a lender's claim on a defaulted loan is paid and the borrower's promissory note is assigned to OE by the lender, OE's regional collectors then become responsible for seeking repayment from the borrower.

FEDERAL CLAIMS COLLECTION ACT OF 1966

The Federal Claims Collection Act of 1966 (31 U.S.C. 951) gave executive departments and agencies the authority on debts under $20,000 to:

--Compromise debts, which previously only the Department of Justice and a few agencies could do.

--Terminate debt collection action when recovery is improbable, which previously only GAO and the Department of Justice could do.

The Federal Claims Collection Act required the Comptroller General and the Attorney General of the United States to issue joint regulations. These regulations (4 CFR 101-105), referred to as the Joint Standards, require agencies to (1) issue appropriate internal regulations, (2) take aggressive collection action, (3) attempt to compromise claims, when appropriate, (4) suspend or terminate collection action when conditions warrant, and (5) refer for consideration of litigation those claims which cannot be compromised or on which collection action cannot be suspended or terminated.

The act was intended for the widest possible application to reduce the amount of litigation previously required to collect claims and to reduce the volume of private relief legislation in the Congress. Claims involving fraud, misrepresentation, or conduct in violation of antitrust laws were exempted from the act.

PROGRAM FUNDING AND COLLECTION STAFFING

The Federal component of the guaranteed student loan program is funded from three appropriations. Expenses for interest subsidies, special allowances, and death and disability claims are paid from higher education appropriations. Staffing and computer services expenses are included in OE's salaries and expenses appropriation, and an appropriation for the Student Loan Insurance Fund is used to pay claims on all defaulted loans. Fiscal year 1976 appropriations (through September 30, 1976) totaled $201.8 million for defaults and $807.8 million for program activities.

As of September 30, 1976, 106 collector positions were authorized. (Only five vacancies existed.) All of these positions were in the regional offices. An additional 94 temporary collector positions were authorized for fiscal year 1977.

LOAN ACTIVITY

From 1968 through September 30, 1976, students obtained about 4 million loans valued at about $4.5 billion under the Federal component of the guaranteed student loan program, as follows.

Fiscal year	Number of loans	Amount of loans	
		Total (000)	Average loan
1968-69	331,040	$ 284,162	$ 858
1970	365,387	353,788	968
1971	481,691	484,015	1,005
1972	691,874	708,164	1,024
1973	599,085	654,616	1,093
1974	506,954	611,657	1,207
1975	504,726	661,292	1,310
1976 (15 mos.) (note a)	522,153	739,884	1,417
Total	4,002,810	$4,497,578	

a/Figures include the 3-month transitional quarter (July through September 1976).

While the number of loans annually has decreased since 1972, the average amount of each loan has increased about 38 percent during the same period.

The rate of default in the program, according to the fiscal year 1977 Federal Budget, was projected to rise from 16.5 percent in 1975 to 17 percent in 1977. From inception of the loan program through September 30, 1976, the Federal Government has paid lenders about $287.7 million on approximately 282,000 defaulted loans. During this period, OE collections (mostly by monthly payments) were about $25.1 million. OE estimates it will pay about $149 million on approximately 147,000 defaulted loan claims in fiscal year 1977. Thus, by the end of fiscal year 1977, the total claims paid will be about $436 million, and collections will total only about $33.8 million. (See graph on p. 7.)

CHAPTER 2

OE'S COLLECTION EFFORTS HAVE NOT KEPT PACE WITH THE GROWING INVENTORIES OF DEFAULTED LOANS

OE's collection program has not kept pace with the growing inventories of defaulted loans. There are a number of factors that contribute to this problem; for example, the loans are in default when acquired and are difficult to collect, workload has increased rapidly, and adequate guidance and monitoring have not been provided to collection personnel. Consequently, collection personnel are faced with huge and growing inventories of defaulted loans, a great many of which are receiving little or no collection action.

Rather than allowing such inventories to continue to accumulate and further disperse OE's collection efforts, OE needs to establish a claims-processing system and procedures that will insure that timely and appropriate action is taken to collect loans that can be collected with reasonable effort and that the remainder are disposed of either through referral to the Department of Justice for suit or termination of collection efforts.

Prompt actions are especially important for older cases, on which collection through suit may soon be impractical because of the 6-year statute of limitations. To help streamline the collection process, a program has been established for referring cases at the regional level to the local U.S. attorneys. The program has improved both enforced collections and voluntary payments, but some collection staffs have not given the program the support necessary for it to be an effective method of collection in their region.

OE is aware that it has problems and is making efforts to improve its collection system. However, OE still needs to recognize that additional effective approaches to its problems must be found and that timely, positive action must be taken to gain control of present and anticipated inventories to effectively manage the collection process.

ELEMENTS OF AN EFFECTIVE COLLECTION SYSTEM

An effective and efficient collection system can be viewed as a pipeline through which each claim is methodically and rapidly processed to its disposition. Good agency procedures not only lead to collections, but also provide information needed to dispose of cases that cannot be collected.

The Joint Standards require that collection efforts be aggressive and comprehensive and lead to the earliest practicable conclusion of administrative efforts to collect from the debtor. Agencies should pursue cost-effective collection procedures, consistent with good business practice, leading to collection, referral for legal action, or termination.

Appropriate collection steps and procedures can vary depending on debt size and type and other circumstances. Ordinarily, however, an agency's collection program should provide the following:

1. Maintaining physical and accounting control of claims and documenting collection actions.

2. Screening and categorizing claims to insure that the collection efforts undertaken are appropriate for each case.

3. Taking appropriate action to locate missing debtors.

4. Taking aggressive collection action against all liable parties, including written demands for payment, with appropriate consideration being given to

   a. interviews with debtors;

   b. contacts with employer if debtor is federally employed;

   c. collection by offset, where feasible; and

   d. temporary suspension of collection action, where debtor cannot be located or the prospects of collection are likely to improve in the foreseeable future.

5. Attempting, at the earliest opportunity, to determine the debtor's ability to pay to assist in evaluating the practicality of available collection alternatives.

6. Exploring compromises as a means of settling the debt.

7. Referring the claim to the Department of Justice for enforced collection.

8. Terminating collection action when it becomes clear that the Government cannot collect or enforce collection of any substantial amount or that the cost of further collection action is likely to exceed the amount recoverable thereby.

Decisions to terminate collection action or to refer cases for enforced collection must be based on information bearing on the collectibility of the debt. To obtain such information, appropriate collection procedures must be followed in a timely and systematic manner.

OE'S COLLECTION SYSTEM

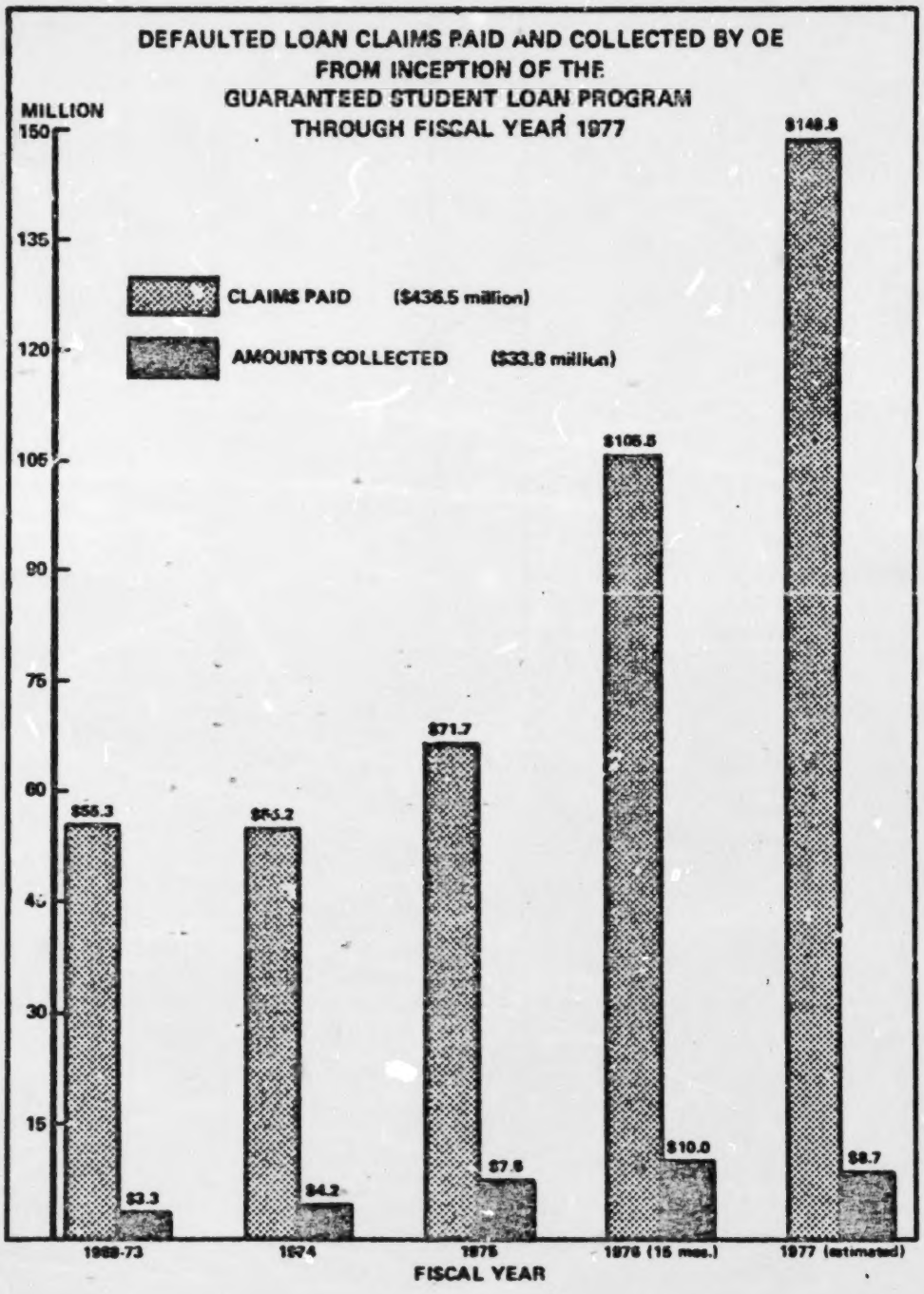
OE's collection system has not functioned as a pipeline, with cases entering the system being processed systematically to the point of collection or disposition. For the most part, cases on which collection efforts have not been fruitful have been retained in the inventories rather than being referred for legal action or terminated. As the inventories have grown over the past few years, it has become increasingly impractical for collectors to pursue collection action on all their cases. This adverse trend is continuing despite recent Central Office guidance urging that cases be fully processed rather than being returned to the collector's inventory.

Inventory size and growth

Perhaps the most convincing evidence that OE has a serious and growing problem with its collection program is the overall statistics showing inventory size and growth. The following graph shows defaulted loans acquired and collections from inception of the program. The graph shows that on an annual basis OE is falling hopelessly behind and that only part of the total inventory is being collected.

While strengthening the collection system should lead to increased collections, it should be recognized that many of these loans can never be collected. Typically, there is no cosigner or other liable party from whom repayment can be sought; the loans are not secured by collateral; and the debtor's personal financial situation often is such that the potential for collection is not good, whether through voluntary repayment or legal action. If lenders have properly carried out their responsibility, efforts to collect these loans have already been made before OE pays the claim. 1/

1/Although not discussed in this report, the need for more aggressive collection efforts by lenders was pointed out in our November 14, 1975, testimony before the Senate Committee on Government Operations, Subcommittee on Investigations. This was an area of concern that the Congress sought to remedy when subsequently it enacted the Education Amendments of 1976. Title I, part D, section 127, for example, provides that if the holder of a promissory note fails to exercise reasonable care and diligence in collecting loans, that holder will be disqualified from further Federal insurance in the guaranteed student loan program.


DEFAULTED LOAN CLAIMS PAID AND COLLECTED BY OE
FROM INCEPTION OF THE
GUARANTEED STUDENT LOAN PROGRAM
THROUGH FISCAL YEAR 1977
MILLION
150
135
120
105
90
75
60
45
30
15
CLAIMS PAID ($436.5 million)
AMOUNTS COLLECTED ($33.8 million)
$56.3
$3.3
$53.2
$4.2
$71.7
$7.6
$105.5
$10.0
$148.8
$8.7
1968-73
1974
1975
1976 (15 mos.)
1977 (estimated)
FISCAL YEAR

The number of defaulted loans in OE's inventories has been increasing steadily. Only a relatively small number has been referred for enforced collection or has been terminated and new defaulted loans are constantly being acquired from lenders. In addition, collection action often must be resumed on cases previously converted to payment status because scheduled payments are not made. For example, OE reports for the year ended June 30, 1976, show that although 76,456 new defaulted loans were acquired, only 24,288 accounts were converted to payment status during the year; of the 24,288, only 13,525 were new accounts rather than accounts for which payment status was being reestablished. OE estimated that, as of September 30, 1976, there were about 65,500 accounts under collection--leaving more than 200,000 defaulted loans that were not in payment status. An additional 147,000 defaulted loans were expected to be acquired in fiscal year 1977.

Dispersion of collection efforts

OE management has recognized that uncollectible cases need to be disposed of, rather than retained indefinitely. However, with limited staffing and competing priorities, little progress is being made.

New guidelines issued in May 1976 stated:

"We consider it very important to again emphasize the necessity of proper handling and managing of the collections portfolio. Each full time collector should be able to manage a minimum of 600 active accounts, with more experienced collectors able to handle larger numbers. 'Skimming' or 'Creaming' of accounts is unacceptable, since it leads to a deterioration in collectibility when follow-up action is not maintained. Understandably, this will result in backlogs, since the number of full time collectors is inadequate to handle all accounts held in the region. A backlog, however, is to be chosen over poorly managed accounts.

"Each loan account assigned to a collector must receive 'full treatment.' If the collector learns that the debtor is a skip, tracing must begin promptly. It is not acceptable to set the file aside and go on to another loan file. Such tracing activity should be maintained continuously."

These guidelines also outlined the circumstances justifying termination and suggested simplified collection procedures for debts under $400.

Adherence to the policy of giving cases the full treatment and not laying cases aside when some problem is encountered should lead to disposition of the cases, regardless of whether they are collected. We could not readily determine whether this policy was being followed, however, because as recently as January 1976 OE only had approximate statistics showing cases terminated.

As shown in the following table, workloads as of September 30, 1976, averaged far more than the 600 cases per collector referred to in the May 1976 guidelines.

Region	Number of unpaid defaults	Number of collectors	Average workload per collector
Boston	3,355	3	1,118
New York	15,619	6	2,603
Philadelphia	11,870	2	5,935
Atlanta	33,344	10	3,334
Chicago	36,102	12	3,008
Dallas	50,133	23	2,180
Kansas City	11,345	3	3,782
Denver	12,653	9	1,406
San Francisco	79,505	28	2,839
Seattle	9,754	5	1,951
Total	263,680	a/ 101	2,611

a/Five additional collectors were authorized--there were two vacancies for Atlanta and one each for Philadelphia, Dallas, and Kansas City.

As a practical matter, this workload makes it difficult to require collection personnel to fulfill the assigned responsibility of completing the processing of cases. The collector is routinely confronted with choosing from among several collection tasks requiring his attention. Competing demands on collectors' time by other activities are also a problem. For example, considerable effort has been devoted to the input and verification of data for the new automated system which, although only partially operable at the completion of our review, is expected to produce needed management information and otherwise assist in the collection program.

The following analysis of a randomly selected sample of 100 cases in one region indicates that prompt collection action had not been taken.

First demand letter sent in (days)	Number of cases
1 to 60	17
61 to 120	19
121 to 180	13
181 to 360	23
Over 360	28
Total	100

Sixty-three of these 100 cases involved debts of $1,000 or more. At the time of our review, OE apparently had taken no collection action on one of these defaulted loans in the amount of $2,000 plus interest, that had been in OE's possession for about 11 months. We also noted a case (not included in the above sample) in which a claim valued at $5,400 had been in OE's possession for 15 months without collection action.

Central Office monitoring of the regional collection operation has been primarily by means of monthly reports showing contacts made by each collector and accounts converted to payment status. These factors alone do not reflect how well collectors are managing their portfolios because there needs to be a proper balance of efforts toward collection, development and referral for legal action, and termination. Reports oriented to collection, rather than to overall management of the portfolio, may encourage continuation of the same practices and imbalances of effort that have led to the present situation in which the majority of the cases are not processed to the point of disposition.

PROPOSED CONTRACT FOR COLLECTION SERVICE

OE is planning to contract for collection assistance with a well-qualified nationwide collection agency, as authorized by the Education Amendments of 1976. The objective is to cope with the current and anticipated collection workload through the combined resources of the contractor and OE collection personnel, with first priority being given to the older cases. OE contemplates that the contractor will pursue and document collection action. When complex questions arise or the contractor's collection efforts are not successful, however, the case will be returned to OE for any necessary followup action and final disposition.

The proposed contract will enable increased resources to be applied to the collection effort. Providing the necessary support to the contractor, i.e., selecting the cases, providing access to needed information, monitoring contractor performance to make sure that it is neither overzealous nor derelict in its collection and documentation efforts, evaluating and responding to issues raised by debtors who dispute their debt or offer to settle for less than the amount owed, etc., will place an additional burden on OE collection personnel.

A Central Office official told us that the contractor will be required to document unsuccessful collection efforts in a manner that will facilitate further OE processing of uncollected cases. This further processing by OE, whether a case is to be terminated or referred for legal action, is also likely to amount to substantial additional workload for the collection personnel because either action requires an assessment of collection efforts and the debtor's ability to pay. If such cases are not adequately documented and pursued to their disposition, much of the potential benefit from using contractor assistance will not be achieved because the uncollected cases will be retained in the inventories.

NEEDED POLICY REVISIONS

OE's collection personnel should be directed to request debtors to submit financial statements, and better guidance should be provided on compromise of debts and on procedures to follow when the debtor is a current or former Federal employee. In addition, the OE Central Office needs to make sure that regional collection personnel make appropriate use of the opportunity to refer cases to local U.S. attorneys for legal action. Improvements in these four areas should materially increase the efficiency and effectiveness of OE's collection efforts.

Need for obtaining debtor-prepared financial statements to evaluate ability to pay

Information on the debtor's ability to pay was lacking for about 80 percent of the cases in our sample from OE's inventories. The lack of this information contributes needlessly to continuing fruitless efforts to collect, missing opportunities to collect through legal action, and failing to remove cases from the active inventories.

The Joint Standards require that cases referred for legal action include evidence that the debtor has ability to pay. The purpose of this requirement is to relieve the judicial system of the workload and cost of fruitless legal

actions. The Joint Standards also provide that the debtor's financial situation may justify suspension or termination of collection action and that ability to pay should be considered in evaluating offers to repay through installments or to compromise a debt.

HEW's claims collection procedures require that claims sent to us must contain reasonably up-to-date credit information, such as a commercial credit report or the debtor's own financial statement (use of Department of Justice form DJ-35 is suggested in the Joint Standards), executed under penalty of perjury, reflecting assets, liabilities, income, and expenses.

There are a number of private companies that furnish credit or investigative reports for a fee. The cost of this service ranges from about $3 to as much as $40 or more per report, depending on the type of report and availability of the information; however, the information furnished often is not adequate to determine ability to pay. For example, these reports often fail to provide employment or income information.

An effective alternative to relying solely on such reports is to request debtors to complete a financial statement form, furnished by OE, if they have not already done so, when they are contacted during the collection process. These statements are far less costly to obtain than commercial credit or investigative reports and are more accurate, complete, and timely. They may enable an early determination on the disposition of a case.

At the time of our review, OE generally was not attempting to get debtors to complete such forms. In a randomly selected sample of 618 cases in various stages of processing, 509 cases (about 82 percent) did not contain financial information. Where financial information had been obtained, it was nearly always in the form of a commercial credit report.

During our review some OE regional collectors began requesting financial statements from debtors. The San Francisco Regional Office mailed out about 10,000 requests. OE officials in the regional office told us that they had found this method of obtaining financial information very useful because such forms were more comprehensive than information on commercial credit reports and readily available for evaluating the collectibility of claims. Although some collectors seemed to be having more success than others, the regional officials estimated that the response rate was running as high as 50 percent for some collectors.

A Central Office official told us that one reason OE did not routinely use this technique was that it was time consuming to verify the information reported by the debtor. We have found, however, that verification is not usually needed except for purposes of updating. The form typically used warns the debtor that willful falsification would be subject to the fine and imprisonment penalties provided by 18 U.S.C. 1001.

Because recent financial information is important in determining the disposition of claims, OE should insure that each regional office follows the practice of obtaining and using debtor-prepared financial statements.

Need for increased emphasis on compromise of debts

The Joint Standards provide that agencies will attempt to effect compromise settlements in cases in which the debtor's financial ability will not permit payment in full, or the litigative risks or the costs of litigation dictate such action. A compromise settlement usually involves a negotiated agreement to accept a lump sum payment of a substantial portion of the debt as full liquidation of the indebtedness. OE has made little use of this collection procedure, and its present guidelines discourage collection personnel from initiating such settlements.

A primary purpose of the Federal Claims Collection Act was to avoid unnecessary litigation. The act's legislative history shows that agencies were expected to use the authority given by the act to accept lesser amounts in full settlement when such settlements would be in the Government's interests and justified by normal business practice, in light of the debtor's ability to pay and the risks and costs inherent in litigation.

HEW regulations provide that collection officials should take the initiative to invite compromise offers before terminating collection efforts on claims and require a determination that there is no basis for compromise before a case is referred for legal action. However, OE had no formal instructions governing compromise until March 1976. From inception of the guaranteed student loan program until that time, OE had apparently compromised very few claims. OE's Central Office informed us in April 1976 that it was aware of only eight compromise settlements by the Central Office and was aware of only one regional office that had made compromise settlements. As of March 1976, this regional office reportedly had compromised 107 claims.

OE guidelines dated March 4, 1976, indicate that regions have authority to compromise debts up to $10,000, but in our opinion the guidelines discourage regional collection personnel from initiating compromise negotiations. The guidelines state:

> "The offer to compromise for less than the full amount of principal and interest owed should in virtually every case originate with the borrower. The Office of Guaranteed Student Loans should never offer to compromise without substantial justification. Any such offer must be approved by the Regional Director prior to such offer being extended."

Officials in one regional office interpret these guidelines to prohibit them from even discussing compromise unless the borrower inquires about this possibility. Despite the constraints of these guidelines, this regional office compromised about 30 cases in the period March through October 1976. Such constraints should not be necessary because acceptance of a compromise offer is based on an evaluation of the prospects of collecting the full amount of the debt and a determination that the compromise is in the best interests of the Government.

Our Office and other agencies routinely advise debtors at an appropriate point in the collection process (usually in the final written demand for payment) that consideration would be given to an offer to compromise, acceptance of such offers being dependent on their reasonableness in relation to the debtor's ability to pay. Our experience shows that this invitation to make an offer may prompt a recalcitrant debtor to respond to demands for payment, which can lead to further negotiations. It also can lead to acquiring a useful financial statement from the debtor, as this would be a requirement in order that a compromise offer can be evaluated.

We believe OE should revise its guidelines to encourage collection personnel to invite compromise offers in cases in which this manner of settlement may be in the Government's interest, especially in view of the huge and growing backlog of cases and, as discussed on pages 16, and 17, the danger of suit being barred by the statute of limitations.

Need to offset debts against salary or retirement benefits due Federal employees

OE has not aggressively pursued collection against debtors who are receiving pay or benefits from the Federal Government, including HEW. In some cases these debts can be collected without the debtor's permission through administrative offset against amounts payable to the debtor; in

other cases, although the debtor's permission is required, payroll deduction authorizations or other repayment arrangements often can be obtained.

The Joint Standards provide that collection by offset should be undertaken in every instance in which it is administratively feasible, and agencies are enjoined to cooperate in this endeavor. It is Government policy that an employee must meet all just financial obligations that are imposed by law. HEW's standards [45 CFR 73.735-701(a)], for example, provide

> "(An employee) shall pay each just financial obligation in a proper and timely manner. * * * The Department cannot condone laxness on the part of an employee in discharging his financial obligations, particularly those to Federal, State, or local governments or to tax-supported institutions such as a city or State * * * educational institution. * * * If for some reason an employee is unable to pay these obligations promptly, he is expected to make satisfactory arrangements for payment and abide by these arrangements. * * **

Thus, the fact that a debtor is a Federal employee opens certain additional collection avenues. The employing agency can be requested to counsel the employee and to assist in arranging repayment. Debtors are often willing to authorize repayment through payroll deduction if this opportunity is brought to their attention; similar allotments can be arranged from regular payments for retirement or other benefits. In addition, the Government can set off, without a debtor's permission, amounts due a debtor from his final pay upon his termination of Government service, or when he applies for moneys due him from his Civil Service Retirement and Disability Fund account.

OE has made some special effort to identify and pursue collection from Federal employees, but regional personnel have not been provided needed procedural guidance. For example, on at least one occasion 142 debtors were identified as HEW employees and were sent special demand letters signed by the Commissioner of Education and, for a time, some special followup and reporting on these cases was required of regional collection personnel. However, a more effective effort could have been made. In the Atlanta region, we initiated action by the appropriate personnel offices to counsel seven debtors who had been identified almost a year earlier as HEW employees. This action resulted in repayment arrangements being agreed to by all seven employees. With our assistance, most of these repayments were arranged to be

made through payroll deductions; however, OE regional personnel and HEW payroll personnel were not familiar with the forms and procedures required to accomplish these payroll deductions.

During the review, our staff also initiated action to contact employees or employing agencies in a number of other cases in which the debtors were current or former Federal employees. These contacts, involving employees of various agencies, led to disposition of the cases through repayment arrangements, referral for suit, or the decision to collect through setoff. Again, however, OE personnel were in need of guidance on procedures to be followed.

The potential for debt collection is relatively strong when the debtor is a Federal employee if timely, aggressive action is taken and if appropriate procedures are known and followed. In addition, the fact that both OE's inventory of defaulted loans and HEW's payroll have been automated should enable OE to periodically determine which debtors are HEW employees.

Need to refer uncollectible claims to the Department of Justice

OE's effectiveness in carrying out its collection responsibilities is dependent, in part, on timely referrals of uncollectible claims that have a reasonable prospect of being collected to the Department of Justice for legal action. As of October 1976, only about 1,150 of more than 230,000 defaulted student loans acquired by OE had been referred to GAO or the Department of Justice for consideration of possible legal action. Although legal action would not be warranted on a great many of those that have not been referred, it is essential that the potential for legal action on these cases be considered before the Government's right to take legal action is barred by the 6-year statute of limitations.

The Joint Standards provide that debts that cannot be collected or compromised and that do not meet the criteria for termination of collection action must be referred to GAO or, if the agency is authorized, to the Department of Justice for legal action. The standards provide that referrals should be made as early as possible, consistent with aggressive collection action, and well within the time limit for bringing suit against a debtor. In line with the Standards, the "GAO Manual for Guidance of Federal Agencies" requires that agencies' debt collection programs be designed to lead to the earliest practicable conclusion of administrative effort to effect collection.

Statute of limitations

Timely referrals are essential for protecting the Government's interests because the statute of limitations, 28 U.S.C. 2415, sets a time limit for bringing suit against debtors. Under the statute's provisions, legal action generally must be taken within 6 years after the right of action accrues. GAO guidance to agencies suggests that claims be referred not later than 1 year before expiration of the period in which a legal action can be filed.

Until recently, OE was not systematically identifying cases that required priority attention due to the statute of limitations; however, OE has started using its automated system, which is not yet fully operational, to help identify its older cases.

Through October 1976, only about 1,150 cases had been forwarded to GAO or the Department of Justice for consideration of legal action. (A large part of these referrals were made during the period of our review.) The need for concern over the statute of limitations on cases remaining in OE's inventory is indicated by the fact that many were acquired several years ago. The figures in the following table show that many claims may already have been, or shortly will be, barred by the 6-year statute of limitations.

Fiscal year		
Acquired	Expiration of statute of limitations	Claims acquired
1968-1970	1974-1976	1,408
1971	1977	8,357
1972	1978	17,411

Regional level referral to U.S. attorneys

In light of the necessity to expedite processing of cases for legal action, GAO and the Department of Justice have cooperated with OE in developing the capability to refer cases at the regional level to local U.S. attorneys' offices. Regional level referral speeds legal action on cases that otherwise would be referred to U.S. attorneys only through OE's Central Office and our Claims Division. Our role has been to assist the OE regional personnel--primarily by reviewing the adequacy of collection actions already taken and documentation included with cases--to select and forward to U.S. attorneys only cases that are adequately prepared for legal action.

A pilot program involving two regions was initiated in October 1975. In the first month, 109 defaulted loan claims valued at $241,000 were referred to U.S. attorneys in San Francisco and Los Angeles, California; and Chicago, Illinois. By September 1976 repayments had begun on about half of these cases and default judgments had been obtained on a number of others, which should enable eventual collection. Some of these claims had remained uncollected for several years.

The following examples illustrate the effectiveness of the referral program.

Example 1. One region received a defaulted claim for $5,370 in June 1974. In September 1976 OE contacted the debtor and ascertained that he was employed by a local district attorney and earned more than $12,000 a year and was about to sell his house at a profit. The debtor offered to compromise the debt for $3,000. OE promptly referred the claim plus interest of about $850 to a U.S. attorney, who filed a lien on the debtor's escrow account for the sale of the house. Within 2 weeks, the U.S. attorney collected the entire amount due the Government (about $6,200, including interest).

Example 2. A debtor had outstanding loans, which with interest totaled over $8,700. OE attempted collection over a 17-month period without success. In September 1976 OE ascertained the debtor was a psychiatrist earning about $31,500 a year and, having established the debtor's ability to pay the defaulted loan, the claim was referred to the U.S. attorney for legal action. Actions taken by the U.S. attorney are resulting in collection of the debt. Payments were scheduled at $100 a month prior to August 1977 and $150 a month thereafter.

Example 3. In this case the borrower had reduced the principal of a $1,300 defaulted loan by only $60 over a 2-year period. OE established that the debtor had been employed as a school teacher for the past 5 years, was earning about $12,000 annually, and owned a home with an assessed value of $23,200. The claim was then referred to a U.S. attorney for enforced collection. Actions taken by the U.S. attorney are expected to result in collection of the debt, either through setoff against the proceeds of sale of the debtor's real property or levy of salary and wages.

Example 4. In another case loans totaling $3,500, plus interest, were defaulted as of June 30, 1973. OE was unable to collect but determined that the debtor was a

professional basketball player earning about $85,000 a year. In October 1976 OE referred the case to a U.S. attorney, who took legal actions leading to garnishment of the debtor's wages. We were informed in February 1977 that repayment would be made over the next 4 months at the rate of $1,000 a month.

Due to the favorable results and acceptance of the pilot program by OE and Justice, the program was continued in the two regions and expanded nationwide to the other eight HEW regions with overall objectives to:

--Gradually expand to include the offices of all U.S. attorneys.

--Establish a channel for direct referral from OE to U.S. attorneys without going through GAO.

Since March 1976 the project has been expanding gradually. In May 1976 OE's Central Office issued written guidance to its regional personnel for documenting and referring claims to U.S. attorneys. Our staff has coordinated efforts through visits to each regional office and to many U.S. attorneys--by August all 10 HEW Regional Offices were participating and by early November 40 U.S. attorneys were participating.

For the most part, Justice and OE Central Office and regional officials have been enthusiastic about the regional level referral program. One U.S. attorney said that he believes it will improve the ability of OE--and lenders--to collect outstanding loans because borrowers will be more apt to pay their student loans if they realize that Justice will take legal action against those who refuse to pay their debts. OE's officials in HEW's San Francisco Regional Office told us that during the 3-month period ended September 1976, they had collected $946,000--the highest in their history--much of which was due to voluntary payments as a result of publicity on the regional level referral program. In another region, lenders have stated that the publicity concerning the referral program was improving their ability to collect through voluntary payment.

An aggressive referral program in all regions would improve the overall effectiveness of OE's collection system. It would enable collection on claims that would not otherwise be collected and create an awareness among debtors that legal action may be taken to collect defaulted loans--such an awareness should increase voluntary payments.

Some regions have been quite aggressive in taking the opportunity to refer claims that they had been unsuccessful

in collecting. Others have not. The extent of each region's participation as of February 1977 was as follows:

Regional office	Cases referred	
	Number	Amount
Boston	67	$ 75,202
New York	1	1,500
Philadelphia	13	13,276
Atlanta	34	78,917
Chicago	28	52,378
Dallas	52	79,848
Kansas City	1	1,440
Denver	21	52,675
San Francisco	466	815,636
Seattle	14	21,913
Total	697	$1,192,785

Although the size of inventories and number of collectors vary among the regions, the small number of referrals from some offices indicates that they may be placing low priority on identifying and preparing cases for referral for legal action. There appears to be a need, therefore, for the Central Office to make sure that each region participates in the program to the extent necessary to demonstrate that (1) it has the ability to select and adequately document cases for referral to U.S. attorneys and (2) referral action is being taken to the extent practicable, in light of staff resources, on all appropriate cases.

CHAPTER 3

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

OE's collection system is similar to a clogged pipeline, with a heavy volume of defaulted loans entering but relatively few cases leaving the system. Although some positive actions are being taken, the problem has reached serious proportions, as many of the defaulted loans are approaching the age at which the statute of limitations will prevent collection through legal action, and payments to lenders, which will exceed collections by about $400 million by the end of fiscal year 1977, represent potential losses to the Government.

Action taken includes significant improvement of Central Office guidelines for collection personnel, including the outlining of circumstances justifying termination of collection action whenever appropriate. Another positive indicator is the awareness and concern by key Central Office officials that aggressive positive action must be taken to get cases moving through the collection system. Management recognizes that better management information is needed, that first priority must be given to the older accounts, and that the present level of collection effort must be significantly increased.

It is not possible to determine how successful the actions that are being planned and taken will be--for example, we anticipate that the administration of the proposed contract for collection assistance and the burden of following up and completing the processing of uncollected cases may create many challenges to management and collection personnel. How well such challenges are met will determine whether the total project is successful.

Certain additional policy changes or increases in emphasis would help insure an effective collection program. Guidelines for collection personnel should (1) require collectors to solicit financial statements from debtors who refuse or say that they are unable to pay, (2) be revised with respect to compromise settlements to more fully conform with the Joint Standards, and (3) include procedures to follow when a debtor is a current or former Federal employee. Above all, there must be a concerted effort to process individual cases to the point that they can be removed from the inventory, whether through voluntary payment, referral for legal action, or termination. Clearly, voluntary payment is the desirable alternative, but if cases are not referred for enforced collection or terminated when these actions are

warranted, the trend will continue toward ever larger and less manageable inventories.

The great disparity among the regional offices in the volume of referrals for legal action under the project for regional level referral to U.S. attorneys compared with regional office inventories indicates that the potential exists for many more referrals by most of the regions. We believe some regions have not given sufficient priority to use of this effective method of collection and that it is incumbent on the Central Office to take whatever action is necessary to get the regions to refer appropriate cases for legal action. One important reason for taking such action is that other debtors may be prompted to voluntarily pay their defaulted student loans when it becomes apparent that the Government is enforcing collection.

We also believe that the lack of Central Office monitoring of regional collection activities has contributed to the present conditions. Effective Central Office direction requires an awareness of the regional level performance and problems.

RECOMMENDATIONS

We recommend that the Secretary of HEW direct the Commissioner of Education to effectively process defaulted student loans to the point of collection, referral for legal action, or termination. As part of this effort, we recommend that:

--If the planned contract is awarded, the contractor should be required to document unsuccessful efforts sufficiently to assist in determining whether to refer the defaulted loan for legal action or to terminate collection action.

--Collection offices should be directed to request debtors to submit financial statements.

--Guidelines on compromise settlements should be revised to encourage, rather than discourage, the use of this collection technique.

--Guidelines should be developed for collection personnel on procedures for collecting through offset or payroll deduction when the individuals in default are Federal employees or former Federal employees.

--The Central Office should insure that every regional collection staff effectively participates in the

program for regional level referral of the defaulted loans to U.S. attorneys.

--A system should be established for monitoring regional office collection activity. The system should provide the information necessary to assess whether defaulted loans are processed to completion (collection, referral for legal action, or termination) rather than returned to the inventory, including any defaulted loan cases processed by a contractor. It should also provide the information necessary to assess the adequacy of collection efforts in each region in light of existing and anticipated inventories of defaulted loans.

HEW COMMENTS AND OUR EVALUATION

HEW commented (see app. I) that since inception of the Office of Guaranteed Student Loans' collection program, its resources have been woefully inadequate. Almost 300,000 defaulted loans are presently being serviced by 155 full-time and some temporary personnel. HEW said, however, that a viable computerized collection system and a planned contract with a private business concern for collection assistance will gradually eliminate the backlog of uncollected defaults.

HEW disagreed with our recommendation that guidelines should be revised to encourage the use of compromise. HEW stated that the authority to compromise indebtedness must rest with supervisors trained in collection and that unskilled collectors might make indiscriminate use of the compromise provision. However, OE's guidelines state that compromise offers must originate with the borrower. OE officials in one regional office interpret those guidelines as prohibiting them from even discussing compromise unless the borrower brings up the possibility. Therefore, we believe this matter still needs to be clarified in OE's guidelines.

We fully agree that indiscriminate use of compromise authority must be avoided; however, this in no way is contrary to our recommendation. Agencies were given compromise authority by the Federal Claims Collection Act to use as an alternative to termination of collection efforts or referral for legal action. Consequently, we believe it would be proper as a last resort effort to arrange voluntary payment, to advise debtors that the Government would consider a compromise offer by the debtor to repay the debt in a lump sum payment of less than the full amount of the debt.

We are not proposing that collectors advise debtors that the Government would be willing to settle the indebtedness for a specific amount. Inviting compromise offers at

an appropriate point in the collection process may prompt a recalcitrant debtor to respond to demands for payment and lead to productive further negotiations. Whether such offers should be accepted by the Government would depend on their reasonableness in relation to the debtors' ability to pay and other factors identified in the Joint Standards. Indiscriminate use of the compromise authority should be avoided by means of internal directives governing the administrative levels at which compromise settlements must be approved or rejected, but this concern should not serve to discourage solicitation of compromise offers at an appropriate point in the collection process.

HEW expressed general agreement with our other recommendations. In response to the recommendation that the proposed contractor should be required to document unsuccessful collection efforts sufficiently to assist in determining whether to refer the cases for legal action or to terminate collection action, HEW pointed out that it is planned that the contractor will furnish collection worksheets and recommendations as to proper further action. In our view, the importance of the contractor's performance and OE's monitoring and followup actions in this area cannot be overestimated. If there is no indication of the debtor's ability to pay, for example, OE will have difficulty determining disposition of the cases. If, as in the past, the uncollected cases are returned to the inventory, OE will continue to have a serious problem in coping with huge backlogs of defaulted loans that require further attention and impede an efficient and effective collection program.

CHAPTER 4

SCOPE OF REVIEW

This review was made to evaluate OE's collection procedures and operations for defaulted loans that were federally insured under the guaranteed student loan program. The review was conducted primarily at OE's Central Office in Washington, D.C., and its regional offices in Boston, Chicago, and San Francisco, with limited field work at HEW's seven other regional offices.

To determine how OE was administering the guaranteed student loan program, we reviewed applicable legislation, congressional hearings, implementing regulations, OE policies, operating procedures, controls over defaulted student loan claims, and monitoring and evaluation methods.

In cooperaton with OE and the Department of Justice we helped implement a pilot program in HEW's Chicago and San Francisco Regions to expedite the referral of uncollectible student loan claims to Justice for legal action. On the basis of the favorable results from the pilot program, the referral project was expanded to the eight other regional offices.

Our field work started in June 1975 and is continuing in the regional offices that have not been authorized to refer claims directly to Justice.

APPENDIX I

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

JUN 17 1977

Mr. Gregory J. Ahart
Director
Human Resources Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "Collection Efforts are Not Keeping Pace with the Growing Inventory of Defaulted Student Loans." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

Thomas D. Morris
Inspector General

Enclosure

Comments of the Department of Health, Education, and Welfare on the General Accounting Office Draft of Proposed Report Entitled "Collection Efforts are Not Keeping Pace with the Growing Inventory of Defaulted Student Loans."

OVERVIEW

Since the inception of the Office of Guaranteed Student Loans collection program, resources have been woefully inadequate. Presently, almost 300,000 defaulted loans are being serviced by 155 full-time and some temporary personnel. This averages slightly over 1200 defaults per person. This, compared to a commercial collection program, represents three times the average workload per person. The 1976 Amendments to the Higher Education Act authorized the Commissioner of Education to contract with a private business concern for assistance in collecting these defaulted loans. A request for proposal to obtain such a contract is presently in the Office of Education, Grant and Procurement Management Division. We anticipate publishing the request for proposal in the third quarter of FY 1977. With such assistance and a viable computerized collections system, the Office of Guaranteed Student Loans (OGSL) will gradually eliminate the backlog of uncollected defaults.

The regulations (Joint Standards) implementing the Federal Claims Collection Act of 1966 provides that agencies have an aggressive collection program and take administrative action, when appropriate, to terminate collection efforts or refer the defaulted loans to GAO or the Department of Justice for further collection action. The Office of Education's collection procedures are consistent with the Federal Claims Collection Act of 1966. Title IV, Part B of the Higher Education Act of 1965, as amended, specifically provides for the collection by the Office of Education of Federal Insured Student Loans on which it has paid default claims.

GAO RECOMMENDATION

We recommend that the Secretary of Health, Education, and Welfare direct the Commissioner of Education to establish the capability to effectively process defaulted student loans to the point of collection, referral for legal action or termination. More specifically, GAO recommends that:
—If the planned contract is awarded, the contractor be required to document unsuccessful efforts to sufficiently assist in determining whether to refer the defaulted loans for legal action or to terminate collection action.

DEPARTMENT'S COMMENT

We concur. The Request for Proposal as presently written contains the following language; "The returned collection worksheets should include specific recommendation as to the proper action that the Office of Education (OE) should take on those debts considered to be non-collectible, such as a

compromise of the debt, write-off of the debt, enter legal action against the debtor, or any other appropriate action that OE should take. The recommended action must be documented on the data sheet in a concise, supportable manner so that OE may take the recommended action promptly."

GAO RECOMMENDATION

--Collections offices be directed to request debtors to submit financial statements.

DEPARTMENT'S COMMENT

We concur. Most of our regional offices are now requiring debtors to submit financial statements after the first contact is made. We will issue instructions to all regions to take this action.

GAO RECOMMENDATION

Guidelines on compromise settlements be revised to encourage, rather than discourage, the use of this collection technique.

DEPARTMENT'S COMMENT

We do not concur. Guidelines for compromising indebtedness have been promulgated to all of our regional offices, and we do not consider these as discouraging the use of this collection technique. In a large and growing collection program, the risk of collectors making indiscriminate use of the compromise provisions is real. Many of our collectors have had little or no commercial collection experience. Turnover of personnel in our collections program is relatively high. Therefore, the authority to compromise indebtedness must be limited to those supervisors who are trained in collections. The guidelines state in part; "The offer to compromise for less than full amount of principal and interest owed should in virtually every case originate with the borrower. The Office of Guaranteed Student Loans should never offer compromise without substantial justification." We intend this to insure the intelligent use of compromise as a collection technique. Indiscriminate offers of compromise by untrained collections personnel could ultimately diminish substantially OE's ability to collect the debt or to present it for litigation.

GAO RECOMMENDATION

--Guidelines be developed for collections personnel on procedures for collecting through offset or payroll deduction when the individuals in default are Federal employees or former Federal employees.

DEPARTMENT'S COMMENT

Collections from a Federal employee by offset or payroll deduction is not permitted without the employee's approval. The Office of Education will prepare procedures, for use by its collection personnel, regarding guidelines for obtaining this approval from the Federal employee. The Office of Education would like to use the services of the Federal employer in assisting in this effort. We would like to point out that the Privacy Act imposes limitations on the disclosure to employers (including Federal employers) of the fact that an employee's loan is in default, but does not prohibit direct contact by OE with the employee whose loan is in default. In addition to preparing guidelines for employee-approved payroll deduction activities, the Office of Education is currently revising its routine uses for the GSLP record systems to permit disclosure of certain loan status information to any employer.

GAO RECOMMENDATION

--The central office ensures every regional collection staff effectively participates in the program for regional level referral of the defaulted loans to the U.S. Attorney.

DEPARTMENT'S COMMENT

We concur. All regional offices have established the required liaison with U.S. Attorneys and litigation requests are increasing. Since the inception of the program for regional referral of uncollectible but litigable defaults directly to the U.S. Attorneys, the number of less than 100 in 1975/76 has risen to 697 through March 1977. Regions are required to submit regular monthly reports of this activity and these reports are reviewed by the Division of Operational Support. If activity slackens, the region is contacted to determine the reasons.

GAO RECOMMENDATION

--A system be established for monitoring regional office collection activity. The system should be capable of assessing whether defaulted loans are processed to completion (collection, referral for legal action, or termination) rather than returned to the inventory, including any defaulted loan cases processed by a contractor. It should also provide the information necessary to assess the adequacy of collection efforts in each region in light of existing and anticipated inventories of defaulted loans.

DEPARTMENT'S COMMENT

We concur. The program has designed and is developing an integrated management system to monitor regional office collection activities. A portion of this system known as the CLACOL Data Management File has been developed and is currently in a state of verification of collection receipts. The trial balance program will shortly become operational within the CLACOL System.

APPENDIX I

In addition, the central office has a staff component responsible for monitoring the conduct of regional offices with regard to operational policy and procedures determined for the program.

GAO REPORTS RELATING TO GUARANTEED STUDENT LOAN PROGRAM

Title	Reference	Date
Examination of Financial Statements of the Student Loan Insurance Fund, Fiscal Year 1968	B-164031(1)	Dec. 10, 1969
Opportunity to Reduce Federal Interest Costs by Changing Loan Disbursement Procedures Under the Guaranteed Student Loan Program	B-164031(1)	Apr. 20, 1970
Examination of Financial Statements of the Student Loan Insurance Fund, Fiscal Year 1969	B-164031(1)	Apr. 12, 1971
Office of Education Should Improve Procedures to Recover Defaulted Loans Under the Guaranteed Student Loan Program	B-117604(7)	Dec. 30, 1971
Examination of Financial Statements of the Student Loan Insurance Fund, Fiscal Year 1970	B-164031(1)	Jan. 12, 1972
Need for Improved Coordination of Federally Assisted Student Aid Programs in Institutions of Higher Education	B-164031(1)	Aug. 2, 1972
Improvements Needed in Administration of the Guaranteed Student Loan Program	B-164031(1)	Mar. 30, 1973
Examination of Financial Statements of the Student Loan Insurance Fund, Fiscal Years 1971 and 1972	B-164031(1)	June 8, 1973

APPENDIX II

Title	Reference	Date
Administration of the Office of Education's Student Financial Aid Program	B-164031(1)	Apr. 4, 1974
Examination of Financial Statements of Student Loan Insurance Fund, Fiscal Year 1973	B-164031(1)	Sept. 17, 1974
Examination of Financial Statements of Student Loan Insurance Fund, Fiscal Year 1974	B-164031(1)	Feb. 12, 1975
Examination of Financial Operations for Fiscal Year 1975 Shows Need for Improvements in the Guaranteed Student Loan Program	B-164031(1)	Feb. 10, 1977
Study of Bankruptcy Involving the Guaranteed Student Loan Program (two letter reports)	B-164031(1)	Apr. 15, 1977

PRINCIPAL HEW OFFICIALS RESPONSIBLE FOR ADMINISTERING ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF HEALTH, EDUCATION, AND WELFARE:		
Joseph Califano	Jan. 1977	Present
David Mathews	Aug. 1975	Jan. 1977
Caspar W. Weinberger	Feb. 1973	Aug. 1975
Frank C. Carlucci (acting)	Jan. 1973	Feb. 1973
Elliot L. Richardson	June 1970	Jan. 1973
ASSISTANT SECRETARY FOR EDUCATION:		
Mary Berry	Jan. 1977	Present
Virginia Y. Trotter	June 1974	Jan. 1977
Charles B. Saunders, Jr. (acting)	Nov. 1973	June 1974
Sidney P. Marland, Jr.	Nov. 1972	Nov. 1973
COMMISSIONER OF EDUCATION:		
Ernest L. Boyer	Jan. 1977	Present
Edward Aguirre	Oct. 1976	Jan. 1977
William F. Pierce (acting)	Aug. 1976	Oct. 1976
Terrel H. Bell	June 1974	Aug. 1976
John R. Ottina	Aug. 1973	June 1974
John R. Ottina (acting)	Nov. 1972	Aug. 1973
Sidney P. Marland, Jr.	Dec. 1970	Nov. 1972
Terrel H. Bell (acting)	June 1970	Dec. 1970